

# **QUARTERLY REPORT**

**LICENSEE: GREATE BAY HOTEL AND CASINO, INC.**

**FOR THE QUARTER ENDED MARCH 31, 2004**

**TO THE  
CASINO CONTROL COMMISSION  
OF THE  
STATE OF NEW JERSEY**

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO

**BALANCE SHEETS**

AS OF MARCH 31, 2004 AND 2003

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
	<b>ASSETS</b>		
	Current Assets:		
1	Cash and Cash Equivalents.....	\$ 15,584	\$ 16,743
2	Short-Term Investments.....	-	-
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2004, \$4,929; 2003, \$10,333).....	5,257	4,733
4	Inventories.....	2,114	1,831
5	Prepaid Expenses and Other Current Assets..... Note 6.....	4,001	3,717 *
6	Total Current Assets.....	26,956	27,024
7	Investments, Advances, and Receivables..... Note 8.....	10,875	10,314
8	Property and Equipment - Gross..... Note 7.....	211,544	197,620
9	Less: Accumulated Depreciation and Amortization..... Note 7.....	(43,528)	(29,351)
10	Property and Equipment - Net..... Note 7.....	168,016	168,269
11	Other Assets.....	1,623	2,373 *
12	Total Assets.....	\$ 207,470	\$ 207,980
	<b>LIABILITIES AND EQUITY</b>		
	Current Liabilities:		
13	Accounts Payable.....	\$ 4,300	\$ 4,469
14	Notes Payable.....	-	- *
	Current Portion of Long-Term Debt:		
15	Due to Affiliates.....	-	-
16	Other.....	-	-
17	Income Taxes Payable and Accrued..... Note 2.....	166	159
18	Other Accrued Expenses..... Note 9.....	10,773	12,109
19	Other Current Liabilities..... Note 10.....	2,216	2,575
20	Total Current Liabilities.....	17,455	19,312
	Long-Term Debt:		
21	Due to Affiliates..... Note 11.....	136,000	118,500 *
22	Other..... Note 11.....	-	-
23	Deferred Credits.....	-	-
24	Other Liabilities .....	3,799	3,517
25	Commitments and Contingencies		
26	Total Liabilities.....	157,254	141,329
27	Stockholders', Partners', Or Proprietor's Equity.....	50,216	66,651
28	Total Liabilities and Equity.....	\$ 207,470	\$ 207,980

The accompanying notes are an integral part of the financial statements.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO  
**STATEMENTS OF INCOME**

FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
	Revenue:		
1	Casino.....	\$ 44,500	\$ 43,639
2	Rooms.....	2,285	2,458
3	Food and Beverage.....	4,988	4,664
4	Other.....	930	883
5	Total Revenue.....	52,703	51,644
6	Less: Promotional Allowances.....	11,254	11,844
7	Net Revenue.....	41,449	39,800
	Costs and Expenses:		
8	Cost of Goods and Services.....	28,728	29,562
9	Selling, General, and Administrative.....	7,701	7,575
10	Provision for Doubtful Accounts.....	146	331
11	Total Costs and Expenses.....	36,575	37,468
12	Gross Operating Profit.....	4,874	2,332
13	Depreciation and Amortization.....	3,705	3,445
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other.....	-	-
16	Income (Loss) From Operations.....	1,169	(1,113)
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates .....	(2,997)	(2,934)
18	Interest (Expense) - External.....	(54)	(61)
19	Investment Alternative Tax and Related Income (Expense) - Net....	(368)	(286)
20	Nonoperating Income (Expense) - Net..... Note 12.....	(639)	89
21	Total Other Income (Expenses).....	(4,058)	(3,192)
22	Income (Loss) Before Income Taxes And Extraordinary Items.....	(2,889)	(4,305)
23	Provision (Credit) for Income Taxes..... Note 2.....	254	159
24	Income (Loss) Before Extraordinary Items.....	(3,143)	(4,464)
25	Extraordinary Items (Net of Income Taxes - 2004, \$ - ; 2003, \$ - ).....	-	-
26	Net Income (Loss).....	\$ (3,143)	\$ (4,464)

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003 AND THE THREE MONTHS ENDED MARCH 31, 2004

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	Description (b)	Common Stock		Preferred Stock		Additional Paid-In Capital (g)		Retained Earnings (Accumulated) (Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
		Shares (c)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 2002 .....	100	\$ -		\$	89,659	\$	\$ (18,544)	\$ 71,115
2	Net Income (Loss) - 2003.....							(17,756)	(17,756)
3	Contribution to Paid-in-Capital. ....								-
4	Dividends.....								
5	Prior Period Adjustments.....								
6									
7									
8									
9									
10	Balance, December 31, 2003.....	100	\$ -		\$	89,659	\$	(36,300)	53,359
11	Net Income (Loss) - 2004.....							(3,143)	(3,143)
12	Contribution to Paid-in - Capital.....								
13	Dividends.....								
14	Prior Period Adjustments.....								
15									
16									
17									
18									
19	Balance, March 31, 2004.....	100	\$ -		\$	89,659	\$	(39,443)	50,216

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO  
**STATEMENTS OF CASH FLOWS**  
 FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003

Amended

6/8/04

(UNAUDITED)

(\$ IN THOUSANDS)

AMENDED

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
1	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.....	\$ (2,784)	\$ (1,621)
	CASH FLOWS FROM INVESTING ACTIVITIES:		
2	Purchase of Short-Term Investment Securities.....	-	-
3	Proceeds from the Sale of Short-Term Investment Securities.....	-	-
4	Cash Outflows for Property and Equipment.....	(2,118)	(1,904)
5	Proceeds from Disposition of Property and Equipment. ....	-	2
6	Purchase of Casino Reinvestment Obligations.....	(508)	(568)
7	Purchase of Other Investments and Loans/Advances made.....	-	-
	Proceeds from Disposal of Investments and Collection		
8	of Advances and Long-Term Receivables.....	(9)	
9	Cash Outflows to Acquire Business Entities (net of cash acquired).	-	-
10			
11			
12	Net Cash Provided (Used) By Investing Activities.....	(2,635)	(2,470)
	CASH FLOWS FROM FINANCING ACTIVITIES:		
13	Cash Proceeds from Issuance of Short-Term Debt.....	5,500	2,000
14	Payments to Settle Short-Term Debt.....	(1,400)	-
15	Cash Proceeds from Issuance of Long-Term Debt.....	-	-
16	Costs of Issuing Debt.....	-	-
17	Payments to Settle Long-Term Debt.....	-	-
18	Cash Proceeds from Issuing Stock or Capital Contributions.....	-	-
19	Purchases of Treasury Stock.....	-	-
20	Payments of Dividends or Capital Withdrawals.....	-	-
21			
22			
23	Net Cash Provided (Used) By Financing Activities.....	4,100	2,000
24	Net Increase (Decrease) In Cash And Cash Equivalents.....	(1,319)	(2,091)
25	Cash And Cash Equivalents At Beginning Of Period.....	16,903	18,834
26	Cash And Cash Equivalents At End Of Period.....	\$ 15,584	\$ 16,743

	CASH PAID DURING PERIOD FOR:		
27	Interest (Net of Amount Capitalized).....	\$ 6,050	\$ 5,959
28	Income Taxes.....	\$ 88	\$ 31

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO  
STATEMENTS OF CASH FLOWS

Amended

6/8/04

FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003

(UNAUDITED)

(\$ IN THOUSANDS)

AMENDED

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
	<b>NET CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
29	Net Income (Loss).....	\$ (3,143)	\$ (4,464)
	Noncash Items Included in Income and Cash Items Excluded from Income:		
30	Depreciation and Amortization of Property and Equipment....	3,514	3,256
31	Amortization of Other Assets.....	191	189
32	Amortization of Debt Discount or Premium.....	-	-
33	Deferred Income Taxes - Current.....	-	-
34	Deferred Income Taxes - Noncurrent.....	-	-
35	(Gain) Loss on Disposition of Property and Equipment.....	-	4
36	(Gain) Loss on Casino Reinvestment Obligations.....	368	286
37	(Gain) Loss from Other Investment Activities.....	-	-
	Net (Increase) Decrease in Receivables and Patrons'		
38	Checks.....	52	268
39	Net (Increase) Decrease in Inventories.....	117	20
40	Net (Increase) Decrease in Other Current Assets.....	705	1,262
41	Net (Increase) Decrease in Other Assets.....	-	-
42	Net Increase (Decrease) in Accounts Payable.....	(2,515)	(1,129)
	Net Increase (Decrease) in Other Current Liabilities		
43	Excluding Debt.....	(2,163)	(1,405)
	Net Increase (Decrease) in Other Noncurrent Liabilities		
44	Excluding Debt.....	90	92
45			
46			
47	Net Cash Provided (Used) By Operating Activities.....	\$ (2,784)	\$ (1,621)

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>		
48	Additions to Property and Equipment.....	\$ 2,118	\$ 1,904
49	Less: Capital Lease Obligations Incurred.....	-	-
50	Cash Outflows For Property And Equipment.....	\$ 2,118	\$ 1,904
	<b>ACQUISITION OF BUSINESS ENTITIES:</b>		
51	Property and Equipment Acquired.....	\$	\$
52	Goodwill Acquired.....		
	Net Assets Acquired Other than Cash, Goodwill, and		
53	Property and Equipment.....		
54	Long-Term Debt Assumed.....		
55	Issuance of Stock or Capital Invested.....		
56	Cash Outflows To Acquire Business Entities.....	\$ -	\$ -
	<b>STOCK ISSUED OR CAPITAL CONTRIBUTIONS:</b>		
57	Total Issuances of Stock or Capital Contributions.....	\$ -	\$ -
58	Less: Issuances to Settle Long-Term Debt.....	-	-
59	Consideration in Acquisition of Business Entities.....	-	-
60	Cash Proceeds From Issuing Stock Or Capital Contributions.....	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

**TRADING NAME OF LICENSEE: SANDS HOTEL AND CASINO**  
**SCHEDULE OF PROMOTIONAL**  
**EXPENSES AND ALLOWANCES**

(\$ IN THOUSANDS)

FOR THE THREE MONTHS ENDED MARCH 31, 2004

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	73,679	\$ 1,635		\$
2	Food	128,066	1,687		
3	Beverage	536,415	1,216		
4	Travel			394	230
5	Bus Program Cash	168,500	3,015		
6	Other Cash Complimentaries	62,772	3,366		
7	Entertainment	3,794	238		
8	Retail & Non-Cash Gifts			124,209	781
9	Parking			49,967	150
10	Other	12,157	97		
11	Total	985,383	\$ 11,254	174,570	\$ 1,161

FOR THE THREE MONTHS ENDED MARCH 31, 2004

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	73,679	\$ 1,635		\$
2	Food	128,066	1,687		
3	Beverage	536,415	1,216		
4	Travel			394	230
5	Bus Program Cash	168,500	3,015		
6	Other Cash Complimentaries	62,772	3,366		
7	Entertainment	3,794	238		
8	Retail & Non-Cash Gifts			124,209	781
9	Parking			49,967	150
10	Other	12,157	97		
11	Total	985,383	\$ 11,254	174,570	\$ 1,161

# GREATE BAY HOTEL AND CASINO, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### (1) Organization, Business and Basis of Presentation

The consolidated financial statements include the accounts of Greate Bay Hotel and Casino and subsidiaries ("The Sands" or the "Company"). All significant intercompany transactions and balances have been eliminated in consolidation. In management's opinion, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the consolidated financial position as of March 31, 2004 and the consolidated results of operations for the three months ended March 31, 2004 and 2003 have been made. The results set forth in the consolidated statement of operations for the three months ended March 31, 2004 are not necessarily indicative of the results to be expected for the full year.

### (2) Income Taxes

The components of the provision for income taxes are as follows:

	Three Months Ending March 31,	
	2004	2003
Federal income tax provision:		
Current	\$ -	\$ -
Deferred	-	-
State income tax provision:		
Current	254,000	159,000
Deferred	-	-
	<u>\$ 254,000</u>	<u>\$ 159,000</u>

Federal and State income tax provisions are based upon the results of operations for the current period and the estimated adjustments for income tax purposes of certain nondeductible expenses.

Due to recurring losses, the Company has not recorded Federal income tax benefits or provisions for the three months ended March 31, 2004.

For the three months ended March 31, 2004 and 2003, there was a charge to income tax provision of \$167,000 and \$159,000, respectively, related to the impact of the New Jersey Business Tax Reform Act. On July 1, 2003, the State of New Jersey amended the new Jersey Casino Control Act (the "NJCCA") to impose various tax increases on Atlantic City casinos, including The Sands. Among other things, the amendments to the NJCCA include the following new tax provision: the greater of a \$350,000 minimum tax or a 7.5% tax on adjusted net income of licensed casinos (the "Casino Net Income Tax") in State fiscal years 2004 through 2006 with the proceeds deposited to the Casino Revenue Fund. For the three months ended March 31, 2004, \$87,500 was charged to the income tax provision related to the minimum Casino Net Income Tax, which is payable in quarterly installments of \$87,500 each.



## **GREATE BAY HOTEL AND CASINO, INC.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)** **(Unaudited)**

#### **(3) Transactions with Related Parties**

Greate Bay Hotel and Casino, Inc.'s ("GBHC") rights to the trade name "Sands" (the "Trade Name") were derived from a license agreement with an unaffiliated third party. Amounts payable by GBHC for these rights were equal to the amounts paid to the unaffiliated third party. GBHC was assigned by High River Limited Partnership ("High River") the rights under a certain agreement with the owner of the Trade Name to use the Trade Name as of September 29, 2000 through May 19, 2086 subject to termination rights for a fee after a certain minimum term. High River is an entity controlled by Carl C. Icahn. High River received no payments for its assignment of these rights. Payment is made directly to the owner of the Trade Name. Such charges amounted to \$53,000 and \$59,000, respectively, for the three months ended March 31, 2004 and 2003.

The Stratosphere Casino Hotel & Tower (the "Stratosphere"), an entity controlled by Carl C. Icahn, allocates a portion of certain executive salaries, including the salary of Richard P. Brown, CEO of GB Holdings, Inc. as well as other charges for tax preparation and travel to GBHC. Payments for such charges incurred from the Stratosphere for the three months ended March 31, 2004 and 2003 amounted to \$106,000 and \$42,000, respectively.

On February 28, 2003, GBHC entered into a two year agreement with XO New Jersey, Inc. a long-distance phone carrier controlled by Carl C. Icahn. The agreement can be extended beyond the minimum two year term on a month-to-month basis. Payments for such charges incurred for the three months ended March 31, 2004 amounted to \$41,000. No payments were made during the three months ended March 31, 2003 related to this agreement.

#### **(4) Legal Proceedings**

Tax appeals on behalf of GBHC and the City of Atlantic City challenging the amount of GBHC's real property assessments for tax years 1996 through 2003 are pending before the NJ Tax Court.

By letter dated January 23, 2004, Sheffield Enterprises, Inc. asserted potential claims against The Sands under the Lanham Act for permitting a show entitled The Main Event, to run at The Sands during 2001. Sheffield also asserts certain copyright infringement claims growing out of the Main Event performances. It has not yet been determined whether or not the claims made by Sheffield would, if adversely determined, materially impact the financial position or results of operations of the Company.

GBHC is a party in various legal proceedings with respect to the conduct of casino and hotel operations and has receiving employed related claims. Although a possible range of losses cannot be estimated, in the opinion of management, based upon the advice of counsel, GBHC does not expect settlement or resolution of these proceedings or claims to have a material adverse impact upon their consolidated financial position or results of operations, but the outcome of litigation and the resolution of claims is subject to uncertainties and no assurances can be given. The consolidated financial statements do not include any adjustments that might result from these uncertainties.

# **GREATER BAY HOTEL AND CASINO, INC.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)** **(Unaudited)**

### **(5) Subsequent Events**

On April 12, 2004, the Securities and Exchange Commission granted GB Holdings application to delist the Existing Notes from trading on the American Stock Exchange. On April 19, 2004, the American Stock Exchange delisted the Existing Notes.

Recently, the casino industry, the CRDA and the New Jersey Sports and Exposition Authority have agreed to a plan regarding New Jersey video lottery terminals ("VLTs"). Although not final, under the plan, casinos will pay a total of \$96 million over a period of four years, of which \$10 million will fund, through project grants, North Jersey CRDA projects and \$86 million will be paid to the New Jersey Sports and Exposition Authority who will then subsidize certain New Jersey horse tracks to increase purses and attract higher-quality races that would allow them to compete with horse tracks in neighboring states. In return, the race tracks and New Jersey have committed to postpone any attempts to install VLTs for at least four years. \$52 million of the \$86 million would be donated by the CRDA from the casinos' North Jersey obligations and \$34 million would be paid by the casinos directly. It is currently estimated that The Sands current CRDA deposits for North Jersey projects are sufficient to fund The Sands proportionate obligations with respect to the \$10 million and \$52 million commitments. The Sands proportionate obligation with respect to the \$34 million commitment is estimated to be approximately \$1.4 million payable over a four year period. The Sands proportionate obligation with respect to the combined \$10 million and \$52 million commitment is estimated to be approximately \$2.6 million payable over a four year period.

### **(6) Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consisted of the following:

	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
Prepaid Federal Income Taxes	\$ 1,359,000	\$ 1,359,000
Prepaid insurance	1,156,000	680,000
Prepaid slot license fee	272,000	305,000
Deferred financing costs	-	555,000
Other current assets	1,214,000	818,000
	<u>\$ 4,001,000</u>	<u>\$ 3,717,000</u>

# GREATE BAY HOTEL AND CASINO, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Unaudited)

### (7) Property and Equipment

Property and equipment consisted of the following:

	March 31,	
	2004	2003
Land	\$ 54,344,000	\$ 54,344,000
Buildings and improvements	88,261,000	91,661,000
Operating equipment	65,798,000	46,943,000
Construction in progress	3,141,000	4,672,000
	211,544,000	197,620,000
Less: accumulated depreciation and amortization	(43,528,000)	(29,351,000)
Net property and equipment	<u>\$ 168,016,000</u>	<u>\$ 168,269,000</u>

### (8) Investments, Advances and Receivables

Investments, advances and receivables consisted of the following:

	March 31,	
	2004	2003
Vermont Plaza Investment, net	\$ 468,000	\$ 468,000
Post 1983 Investment, net	7,503,000	6,907,000
NJPB - MPMI Investment, net	1,058,000	993,000
Other	1,846,000	1,946,000
	<u>\$ 10,875,000</u>	<u>\$ 10,314,000</u>

# GREATER BAY HOTEL AND CASINO, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Unaudited)

### (9) Other Accrued Expenses

Other accrued expenses consisted of the following:

	March 31,	
	2004	2003
Accrued wages	\$ 1,301,000	\$ 1,192,000
Accrued vacation	1,561,000	1,635,000
Major Medical - Non-union	1,080,000	799,000
Other accrued expenses	6,831,000	8,483,000
	\$ 10,773,000	\$ 12,109,000

### (10) Other Current Liabilities

Other current liabilities consisted of the following:

	March 31,	
	2004	2003
Unredeemed gaming chips	\$ 557,000	\$ 369,000
CRDA bonds payable	548,000	531,000
Other current liabilities	1,111,000	1,675,000
	\$ 2,216,000	\$ 2,575,000

### (11) Long-Term Debt

Long-term debt is comprised of the following:

	March 31,	
	2004	2003
Due to GB Property Funding	\$ 110,000,000	\$ 110,000,000
Due to Holdings	26,000,000	8,500,000
Total indebtedness	136,000,000	118,500,000
Less - current maturities	-	-
Total long-term debt	\$ 136,000,000	\$ 118,500,000

**GREATER BAY HOTEL AND CASINO, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

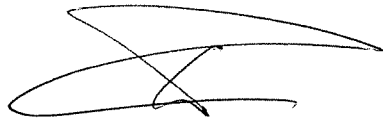
**(12) Nonoperating Income (Expense) - Net**

Nonoperating income (expense) – net is comprised of the following:

	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
Interest Income	\$ 2,269	\$ 10,392
CRDA Interest Income	79,802	94,479
CRDA Interest Inc. - Reserve	(11,316)	(11,316)
Gain/loss Property Disposal	-	(3,925)
Debt-restructuring Cost	(709,799)	-
	<u>\$ (639,044)</u>	<u>\$ 89,630</u>

STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.



Signature

Douglas S. Niethold  
Vice President, Finance

Title

2892-11

License Number

On Behalf Of:

Greate Bay Hotel And Casino, Inc.  
Casino Licensee